

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
GLOBAL EQUITY SUB-ASSET CLASS ALLOCATION RANGES**

**August 15, 2005**

*This Policy is effective immediately upon adoption.*

**I. PURPOSE**

This document sets forth the investment policy, guidelines, and procedures ("the Policy") for determining the allocation of funds to the various sub-asset classes of Global Equity. The Policy allows for sufficient flexibility to capture investment opportunities as they may occur, yet provides reasonable parameters to ensure prudence and care while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the market.

**II. STRATEGIC OBJECTIVE**

The Program shall be managed to accomplish the following:

- A. Enhance the System's total return;
- B. [Hedge](#) against active (pre-retirement) liabilities;
- C. Provide diversification to the System's overall investment program;  
and
- D. Consider solely the interest of the System's participants and their beneficiaries in accordance with California State Law.

**III. RESPONSIBILITIES AND DELEGATIONS**

- A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Investment Committee delegates the responsibility for administering the Program to the System's Investment Staff.

- B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:
1. Developing and recommending the Policy to the Investment Committee;
  2. Developing and maintaining a procedures manual, subject to periodic reviews and updates, outlining Staff operational procedures used in implementing this Policy;
  3. Implementing and adhering to the Policy;
  4. Reporting immediately all violations of the Policy to the Chief Investment Officer and at the next monthly report to the Investment Committee with explanations.
- C. **The General Pension Consultant** is responsible for monitoring, evaluating, and reporting to the Investment Committee, at least quarterly, about the performance of Global Equity.

#### IV. BENCHMARK

The [benchmark](#) for the U.S. equity portion of Global Equity is the [Custom Wilshire 2500](#). The benchmark for the international portion of Global Equity is the Custom FTSE All-World ex-U.S.

#### V. SUB-ASSET CLASS ALLOCATIONS

The categories and ranges for global sub-asset classes shall be as follows:

Global Equity Sub-Asset Classes			
	Current Allocation	Broad Ranges	Anticipated Target
Passive	71%	50% - 100%	70% $\pm$ 15%
Enhanced & Active	23%	0% - 40%	20% $\pm$ 10%
Alternatives (Corp Gov.; MDP; RMARS)	6%	0% - 16%	8% $\pm$ 4%

- A. There are three broad categories: [Passive](#), Active/Enhanced and Alternatives. The Alternatives category includes the Manager Development Program (MDP), Corporate Governance Managers, and Risk Managed Absolute Return Strategies (RMARS).
- B. The Broad Ranges permit staff to strive for the greatest ability to maximize the return per unit of [risk](#) for Global Equity. The Anticipated Target Ranges are the most likely outcomes. The rationale behind the ranges is as follows:
1. **Passive:** The index funds are the fallback alternative when there are insufficient opportunities to add value. This allocation is broad because it is impossible to forecast when good opportunities may be available. The Anticipated Target Range of 55% to 85% may be exceeded only upon approval by the Chief Investment Officer.
  2. **Active/Enhanced:** This encompasses both [enhanced indexation](#) and active [managers](#). The availability of managers varies widely depending on the assignments and whether it is domestic or international. The Anticipated Target Range of 10% to 30% may be exceeded only upon approval of the Chief Investment Officer.
  3. **Alternatives:** The range for Alternatives is set at 0% to 16%. Since this encompasses Corporate Governance, MDP, and RMARS, there are a range of opportunities and possibilities that would be subject to availability, success and [liquidity](#). The Anticipated Ranges for the three areas of Alternatives shall be as follows:

Global Equity Alternatives Allocation		
	Current Allocation	Anticipated Target
Corp Gov	3%	3% $\pm$ 2%
MDP	2%	3% $\pm$ 2%
RMARS	1%	3% $\pm$ 2%

The Anticipated Target Range to individual categories of Alternatives, set at 1% to 3%, may be exceeded only upon approval by the Chief Investment Officer.

4. The ranges are meant to allow staff the flexibility to fund current Board approved programs to the extent that there are competitive opportunities consistent with CalPERS' RFP and contracting process. Staff will be making decisions based on a wide range of factors such as, but not limited to, the maturity, size and performance persistence of the manager, the prudence of the strategy, and the ability to successfully implement the transition. The primary factor will be a systematic capital allocation process that is reviewed semi-annually by staff.
- C. The split between international and domestic securities is determined by the CalPERS Investment Committee. Each of the proposed categories has both domestic and international vehicles. Staff will uphold the international /domestic allocation over the entirety of Global Equity and opportunistically add to each within stated policy guidelines

## **VI. GLOSSARY OF TERMS**

Definitions for key words used in this policy are located in the Equity Glossary of Terms which is included in the System's Master Glossary of Terms.

Approved by the Policy Subcommittee: June 10, 2005

Adopted by the Investment Committee: August 15, 2005

**Asset Class Glossary: Equities**  
**Policy: Global Equity Sub-Asset Class Allocation Ranges**

**Benchmark**

A set of securities with associated weights that provides a passive representation of a manager's investment process. The benchmark return is usually used to measure a manager's performance results.

**CalPERS Custom Wilshire 2500 Index**

The Wilshire 2500 Index, excluding Real Estate Investment Trusts (REITs) and tobacco stocks, and with dividends reinvested. The Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, excluding REITs and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

**Enhanced Indexation**

An equity-based strategy or synthetic strategy where managers are expected to add consistent alpha above the passive index by controlling tracking error at a level that is below traditional active management. For example, for U.S. large capitalization core equity, the expectation is a return of 1.00% per annum above the benchmark, net of fees, with annual tracking of 2.00%-2.50%.

**Hedge (Hedging)**

A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

**Liquidity**

The ability to quickly convert a particular investment into cash at a low transaction cost.

**Manager**

A professional responsible for managing the securities portfolio of an individual or institutional investor. In return for a fee, the money manager has the fiduciary responsibility to choose and manage investments prudently for their clients. In the System's case, an internal manager is a portfolio manager on the staff, while an external manager is an outside money management firm.

**Passive Investment**

Investing in a manner that attempts to replicate the characteristics and performance of a market index. In theory, passive investing/management assures investment performance is neither worse nor better than the market as a whole. In practice, actual results differ from the results reported for the index due to transactions costs and tracking error.

**Risk**

A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as "standard deviation", which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.